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LENDING OF ENTREPRENEURS IS AN IMPORTANT FACTOR IN ECONOMIC DEVELOPMENT

Abstract: *Small business and private entrepreneurship are one of the growth points of the economy, an important source of employment and the simplest way to reduce poverty. The adoption of the Resolution of the President of the Republic of Uzbekistan dated October 13, 2020 No PP-4862 "On additional measures to improve the system of entrepreneurship and development of entrepreneurship"[2] is another incentive for the development of entrepreneurship. It is very important today that it is tasked to form an integrated system of lending to businesses, based on foreign experience, consisting of the possibility of obtaining complex and complementary loans. Financial support of business entities on the basis of loans has been identified as one of the main directions of the ongoing reforms in the country. The Action Strategy for the five priority areas of further development of the Republic of Uzbekistan for 2017-2021 sets the task of "further expansion of lending to small business and private entrepreneurship" [1]. In particular, it is important to scientifically substantiate the accumulation of extensive practical and rich experience in business lending in economically developed countries, the study, generalization of these foreign experiences and their use in the practice of the banking system. The article examines the specifics, the theoretical basis of the impact of small business lending on economic growth in the country. The relationship of scientists and experts to this issue is studied and an author's approach is given. Based on the research, scientific conclusions have been made.*

Key words: *Small business, lending, supply, interest, income, long-term loans entrepreneurs economic development, Ordinary Least Squares.*

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Introduction

Today, special attention is paid to the development of small businesses in our country. At the same time, commercial banks should offer entrepreneurs a "package of preferential services" depending on the results of their business [3] indicates the urgency of expanding the services provided by commercial banks to small businesses. Over the past 4 years, many small businesses have expanded as a result of the opportunities created for business development.

Financial support of business entities on the basis of loans has been identified as one of the main directions of the ongoing reforms in the country.

In our country, all barriers to lending to small businesses are being removed. In particular, 69th place in terms of doing business, 67th out of 190 countries according to the World Bank's Doing Business [4] is also an indication of how far our work in this area is progressing.
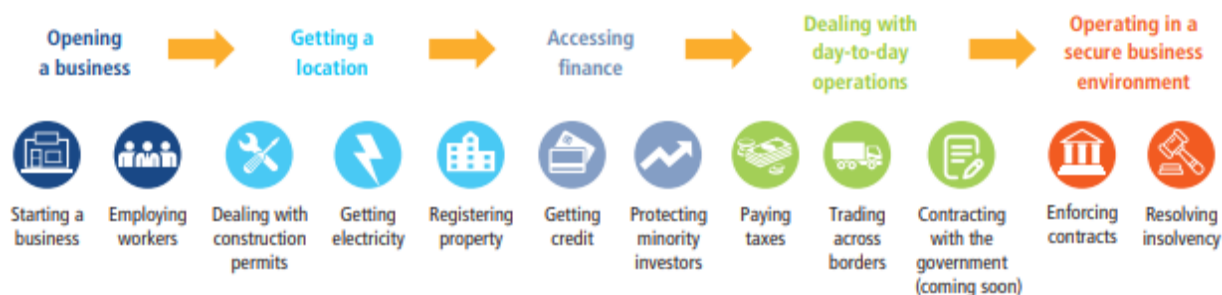
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Figure 1. Phases of doing business [4]

Loans are a necessary requirement for business entities in Phase 3. Commercial banks of the country are taking measures to fully meet this demand in a timely manner. In addition, the country is working to widely apply the experience of "social contract". An unemployed person often suffers from lack of funds to learn a profession. Today, our state provides financial and social assistance to young people and women in this initial period. The sources for performing these tasks are also clearly identified. 100 million from the Fund for Reconstruction and Development. Funds in the amount of USD will be transferred [2].

When the rich experience of advanced business lending by commercial banks of developed countries was studied, it became clear that financial provision, which is the basis for business financing, is not the only factor for business, but the most vital as well as a key element for starting and continuing any business. What is remarkable is that it does not matter where or how the sources of money are formed, it has a legal basis and is cheap and quick to find.

According to UNESCAP, small and medium-sized businesses account for 99 percent of all firms in East and Southeast Asia, as well as in Japan [5]. Small and medium-sized businesses are the largest source of employment in the region, accounting for three-quarters of the region's employment.

Small and medium-sized businesses account for 90 percent of all firms in the world [6]. A study by the International Monetary Fund and McKinsey & Company, an international consulting firm, found that the total number of formal and informal micro, small and medium enterprises worldwide is 420-510 million, of which 365-445 million are located in developed countries [7].

The issue of lending to businesses has been scientifically studied by foreign and local economists and relevant conclusions have been drawn.

The founder of the Grameen Bank of Bangladesh, Nobel Laureate, well-known economist M. Yunus has made a unique revolutionary change in the field of business lending. In particular, at his initiative and proposal, a form of group lending to small businesses, a type of unsecured lending was introduced in the practice of Grameen Bank.

According to M. Yunus, the main focus in lending to small businesses that are just starting out should be the social effect of lending. As the financial capacity of business entities expands, they will lead to an increase in demand for loans at market rates [8].

Today, we can divide the problems of businesses in obtaining credit into two groups, namely, internal and external problems.

External problems in obtaining credit:

a) The high interest rates on loans provided by commercial banks to businesses is explained by the fact that as a result, lending to businesses has a high level of risk; (Currently, the average interest rate on loans to legal entities by commercial banks as of June 1, 2020 is 23,7% [9].)

b) short repayment period;

c) the complexity of the loan process.

Internal problems that make it difficult to get a loan:

a) limited lending to businesses;

b) insufficient development of the competitive market in lending to business entities;

c) the small scale of its activities, the difficulty of assessing its status;

d) quality of business plan preparation for obtaining a loan, etc.

Lending processes in commercial banks currently operating in the country are carried out in accordance with the Regulation of the Board of the Central Bank of the Republic of Uzbekistan dated November 23, 2013 No 22/9 "On the procedure for lending to small businesses in the national currency." The objects of lending in commercial banks are individual entrepreneurs, micro-firms, small businesses, farmers and family businesses. Loans are issued by commercial banks in accordance with the loan agreement between the bank and the borrower.

Each commercial bank determines the grace period for lending to small business and private entrepreneurship on the basis of its credit policy. Also, loans may not be issued for the implementation of activities prohibited by law and for the repayment of previously received loans or other debts specified in the "Credit Policy" of a commercial bank.

Table 2. Loans for financial support of small business [10]

| Years | Total loans allocated | | Of which: | | | | | |
| | | | To legal entities | | To individual entrepreneurs | | To conduct business activities for the population | |
	number of loans	Amount (billion soums)	number of loans	Amount (billion soums)	number of loans	Amount (billion soums)	number of loans	Amount (billion soums)
01.07.2017	236740	10181,1	76304	7079,1	19845	920	140591	2182,4
01.07.2018	191134	14353,8	82215	13773,4	32200	1629	76719	921,3
01.07.2019	284902	24397,5	32459	19635,9	17390	1273,2	235053	3488,2
01.07.2020	107313	19410,8	36787	17346,1	13463	949,7	52563	1114,8
Total:	**820089**	**68343,2**	**227765**	**57834,5**	**82898**	**4771,9**	**504926**	**7706,7**

The analysis of the data in the table above shows that over the past four years, a total of 820089 small businesses received 68343.2 billion soums. soums were allocated for loans. 7706.7 billion soums were allocated for entrepreneurship. UZS loans account for 11.3% of the total loans, which makes it necessary to further develop this indicator. In addition, 57834.5 billion soums were allocated to small businesses. UZS, which is 84.6% of the total allocated loans.

Commercial banks and credit unions have traditionally used lending methods to lend to small and medium-sized businesses around the world. A study by the World Bank in 91 commercial banks in 45 countries found that the small and medium business segment is a profitable customer for the bank, but macroeconomic instability in developing countries is a major problem compared to small and medium businesses in developed countries. funding them will stand out.

Materials and Methods

The analytical part of this article is focused on the empirical analysis of trends in key indicators of macroeconomic, corporate and firm-level indicators in 2006-2017. Considering the mathematical and economic attributes and properties of the selected indicators, econometric modelling is decided to built on OLS method with comprehensive auxiliary tests. In selecting the indicators, influencing on the SME development in domestic economy, all impact channels are included. The econometric model is specified as follows:

$$SSME_t = \alpha_0 + \beta_1 LSME_t + \beta_2 NSME_t + \beta_3 BENV_t + \beta_4 MEST_t + \varepsilon_t \qquad (1)$$

$SSME$ – share of SMEs in GDP in t period. Importance of SMEs in the economy is estimated through their share in the gross domestic output.

Therefore, share of SMEs in GDP formation is selected as the key measure in econometric model.

$LSME$ – lending to SMEs in t period. As mentioned in problem statement, SME finance holds the central position in establishing SMEs and moving them forward due to the usually faced need in funding. Bank lending makes up the largest contribution in SME support schemes, as most enterprises lean on bank funding even in pre-establishment, establishment and recovery periods. Bank offers and lending volumes to SMEs directly influence on the overall SME development trends in economy.

$NSME$ – number of SMEs. Change in the number of operating SMEs in economy illustrates their expansion and its growth shows supportive environment, decrease is the sign of negative condition for SME expansion.

$BENV$ – business environment in domestic economy. General business environment in a particular economy depicts the entire picture of private sector, which presents an operational space for large, medium and small businesses. Share of private sector enterprises indicates the wellbeing in business environment. Dominance of state owned/ governmental enterprises tightens the smooth functioning of

$MEST$ – macroeconomic stability. Macroeconomic stability lays the solid foundation for overall socio-economic development in the economy. It ensures effective functioning of all economic tools, including income, labor, resources, markets, corporate relations etc. Macroeconomic stability is measured with economic growth indicators, namely, GDP growth. Following generally accepted theory, in this econometric model, macroeconomic stability is measured through dynamics of GDP volume in national currency.

Results

Deriving from the essence and attributes of the

data, the econometric model is estimated in ordinary least squares (OLS) method. In initial stage of the analysis, we decided to obtain basic characteristics of collected data sets, which enables us to make decision over model selection.

Table 1. Descriptive statistics

	SSME	LSME	NSME	BENV	MEST
Mean	52.15000	6685.187	183.7304	370.8177	104508.7
Median	53.65000	4693.500	188.5800	440.6343	87170.20
Maximum	56.90000	19600.00	229.6660	491.7986	249136.4
Minimum	42.10000	546.8380	100.8000	226.7064	21124.90
Std. Dev.	4.706765	6310.014	32.99208	115.2752	73457.21
Skewness	-0.939127	0.873934	-1.139547	-0.299592	0.631016
Kurtosis	2.734221	2.522623	4.502227	1.178102	2.242019
Jarque-Bera	1.799240	1.641465	3.725480	1.839166	1.083631
Probability	0.406724	0.440109	0.155247	0.398685	0.581691
Sum	625.8000	80222.24	2204.765	4449.812	1254104.
Sum Sq. Dev.	243.6900	4.38E+08	11973.25	146172.1	5.94E+10

The descriptive statistics illustrates that the data points are close to the mean in share of SMEs and number of SMEs, while those in lending to SMEs and macroeconomic stability is are spread out over a wider range of values. Share of SMEs, number of SMEs and business environments data are negatively skewed, since lending to SMEs and macroeconomic stability data sets are positively skewed: asymmetric data does not exist. Selected data sets have positive (leptokurtic) kurtosis, which indicates that data is heavily distributed.

After obtaining a positive descriptive statistics coefficients, the econometric model (1) is run in OLS method (Table 2).

Table 2. OLS test results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	32.53329	7.154166	4.547461	0.0026
LSME	0.003242	0.001048	1.093048	0.0175
NSME	0.041521	0.036039	1.152119	0.0871
BENV	0.002847	0.010294	0.276544	0.0901
MEST	0.000312	9.78E-05	3.190052	0.0153
R-squared	0.843149	Mean dependent var		52.15000
Adjusted R-squared	0.753519	S.D. dependent var		4.706765
S.E. of regression	2.336759	Akaike info criterion		4.829744
Sum squared resid	38.22310	Schwarz criterion		5.031788
Log likelihood	-23.97846	Hannan-Quinn criter.		4.754940
F-statistic	9.407061	Durbin-Watson stat		2.172400
Prob(F-statistic)	0.006038			

OLS test results showed that all selected factors have positive effect in the dynamics of the share of SMEs in GDP. Moreover, all four variables are significant, as probability is less than 10 per cent. Number of SMEs (0.041521) adds the largest contribution to the strengthening position of SME's to economic growth in Uzbekistan. Bank lending to SMEs is the second major driving force, which stimulates the SME development in the domestic economy (0.003242). Business environment (0.002847) in Uzbekistan also supports SMEs' solid role in economic development. Among all four factors, macroeconomic stability (0.000312) influenced comparatively less on SMEs' share in GDP.

In consistent with OLS test results, we specify the mathematical expression of our econometric model as follows:

$$SSME_t = 32.53329 + 0.003242\ LSME_t + 0.041521\ NSME_t + 0.002847\ BENV_t + 0.000312\ MEST_t + \varepsilon_t \qquad (2)$$

Discussion

In the course of scientific research, the following controversial cases were identified. Creating more incentives and incentives for entrepreneurs with good credit histories, which effectively operate through the stratification of benefits provided to commercial entities by commercial banks, will create the basis for the expansion of enterprises;

Given the high level of enthusiasm and aspiration of the population of the Republic to start their own business, it is necessary to reduce interest rates on loans;

The profitability of enterprises in various sectors of the economy does not correspond to the interest rates on loans issued by commercial banks in our country. The average interest rate on loans issued by banks is much higher than the profitability of sectors of the economy, especially in agriculture and industry.

Conclusion

As discussed above, SME's play critical role in ensuring balanced and progressive socio-economic development in both developing and advanced economies. Therefore, SME support schemes, especially ensuring financial stimulation has been on the top of economic policymaking agenda of nearly all countries in the world. Nowadays SMEs in advanced economies enjoy effectively and prudently introduced lending schemes, where developing economies fail in delivering the needed financial support owing to systemic and structural problems. Therefore, developing economies are actively introducing new tools and services from the advanced experience of developed counterparts. In accordance with research findings and international best practices, following

recommendations are drown and proposed in order to improve SME lending schemes in developing countries, which can be applied to Uzbekistan:

1. In many developing economies interest rates of loans for SMEs are not sufficiently flexible. Even they offer lending tools in preferential interest rates, they are solidly fixed at particular scale of interest rates, which changes depending on loan amount and maturity period. Introducing loyalty, credit history and portfolio bonuses.

2. Credit institutions mainly focus on timely and full payback of the issued loan to SME's. Considering the importance of SME's in the employment and value creation in the economy, it is recommended to consider the social contribution (investment, employment#, output dynamics, gained through the bank loan) in presenting lending tools and to apply bank's own preferred interest rate or other form of stimulation for SME in future.

3. As a result of the analysis, in order for banks to succeed, they must first and foremost consider their most valuable "asset" as their customers, and qualitatively change the system of customer relations to form a new ideological way of working with customers. it became clear that a new technology-based way of working had to be established.

4. Small business and private entrepreneurship in Uzbekistan have a high share in GDP, but have a share of 7.9% in the loan portfolio compared to developing countries, lagging behind in financing small business and private entrepreneurship.

5. In the best foreign experience in lending to small businesses, it became clear that special surveys of small businesses and the application of the organization of future lending in Uzbekistan on the basis of the identified shortcomings are quite effective.

6. With extensive use of international experience, commercial banks should review and adapt the lending systems of business entities.

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